

COMMONWEALTH OF KENTUCKY  
BEFORE THE PUBLIC SERVICE COMMISSION

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In the Matter of:

AN ADJUSTMENT OF RATES	)	
OF THE SOUTHERN MADISON	)	CASE NO. 8324
WATER DISTRICT	)	

O R D E R

On August 27, 1981, Southern Madison Water District ("Southern Madison") filed its petition with the Commission requesting approval of its revised water rates. The proposed rates would increase revenues \$72,250 above the test period level of \$239,542 or an increase of 31 percent. In order to determine the reasonableness of the request, a hearing was held on December 16, 1981, in the Commission's offices in Frankfort, Kentucky. No intervenors were present. The matter is now submitted for final determination by the Commission.

TEST PERIOD

Southern Madison proposed and the Commission has accepted the 12-month period ending May 31, 1981, as the test period in this matter.

REVENUES AND EXPENSES

Southern Madison proposed several pro forma adjustments to its test period operations. The Commission has accepted these adjustments for rate-making purposes with the following exceptions:

Depreciation - It is the policy of the Commission to compute depreciation expense on the basis of the original cost of the plant, less contributions in aid of construction, as ratepayers should not be required to provide recovery on that portion of the plant that has been provided at zero cost. Therefore, Southern Madison's depreciation expense has been reduced by \$8,150 to an annual expense of \$23,350.<sup>(1)</sup>

Purchased Water - Southern Madison proposed to reduce this expense to reflect the Commission's policy of allowing a maximum water line loss of 15 percent for rate-making purposes. Moreover, Southern Madison proposed to increase this expense to reflect the water costs of 17 new customers anticipated to join the system within the next operating cycle. The net effect of these adjustments would reduce Southern Madison's test period expense by \$10,401.

The Commission has recalculated Southern Madison's line loss limitation using the formula in its purchased water adjustment regulation [807 KAR 5:067 Section 2(3)] and has recalculated the expected purchased water costs from the 17 additional customers. The Commission's recalculations reduce Southern Madison's proposed adjustment to \$2,674 or a reduction of \$7,727.<sup>(2)</sup>

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- (1) Plant in Service (\$1,207,491) - Contributions in Aid of Construction (\$273,491) = Depreciable Plant (\$934,000) X Depreciation Rate (2.5 percent) = \$23,350.  
(2) \$10,401 (Southern Madison's proposed adjustment) - \$2,674 = \$7,727.

Amortization - The Kentucky Department of Transportation, upon relocation of certain lines owned by Southern Madison, billed it \$17,500 to cover these relocation costs. Southern Madison did not provide for this extraordinary expense when petitioning the Commission for the present rate increase. The Commission is of the opinion that this liability to the Kentucky Department of Transportation should be capitalized and amortized over a 5-year period for rate-making purposes. Therefore, the Commission has allowed \$3,500 in test period expenses.

Supplies - Southern Madison proposed to increase supplies expense by \$1,193 based upon a 10 percent inflation factor. The Commission has disallowed this adjustment for rate-making purposes as it is merely an estimated rate, which is neither known nor measurable.

Revenue from Water Sales - As the Commission has allowed Southern Madison's proposed adjustment to purchased water expense for the 17 additional customers, revenue should be adjusted by the expected revenue to be generated by the new customers. Therefore, the Commission has increased revenue by \$3,197. (3)

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(3) (Average Monthly Consumption/customer) 4,990 gallons X  
(Present Rate/1,000 gallons) \$3.14 = \$15.67 X 12 months =  
\$188 X 17 customers = \$3,197.

Therefore, Southern Madison's adjusted revenues and expenses are as follows:

	<u>Southern Madison's Pro Forma</u>	<u>Staff Adjustment</u>	<u>Adjusted</u>
Operating Revenues	\$ 239,542	\$ 3,197	\$ 242,739
Operating Expenses	<u>206,287</u>	<u>(3,170)</u>	<u>203,117</u>
Net Operating Income	<u>\$ 33,255</u>	<u>\$ 6,367</u>	<u>\$ 39,622</u>

#### REVENUE REQUIREMENT

The Commission is of the opinion that Southern Madison's debt service coverage of .81 is inadequate to allow it to meet its operating expenses and debt obligations. The Commission is of the opinion that the fair, just and reasonable debt service coverage is 1.2X, as it will permit Southern Madison to pay its expenses and meet its debt obligations. Therefore, the Commission finds that Southern Madison is entitled to increase its rates to produce an increase in annual revenues of \$22,827 calculated as follows:

1.2 X Debt Service Coverage	\$ 69,949
Add: Adjusted Operating Expenses	<u>203,117</u>
Subtotal	\$273,066
Less: Adjusted Operating Revenue	<u>242,739</u>
Other Income	<u>7,500</u>
Increase in Gross Revenue	<u>\$ 22,827</u>

#### SUMMARY

After reviewing the evidence of record and being advised, the Commission is of the opinion and finds that:

- 1) The rates proposed by Southern Madison will provide revenues in excess of those found to be fair, just and reasonable and should be denied upon application of KRS 278.030.

2) The rates in Appendix A are the fair, just and reasonable rates to charge for water service and should be approved.

IT IS THEREFORE ORDERED that the rates proposed by Southern Madison will provide revenues in excess of those found to be fair, just and reasonable and are hereby denied upon application of KRS 278.030.

IT IS FURTHER ORDERED that the rates in Appendix A are the fair, just and reasonable rates for Southern Madison to charge for water service and are hereby approved for service rendered on and after the date of this Order.

IT IS FURTHER ORDERED that Southern Madison shall file with this Commission within 30 days of the date of this Order, its revised tariff sheets setting forth the rates approved herein.

Done at Frankfort, Kentucky, this 1st day of March, 1982.

PUBLIC SERVICE COMMISSION

Marlin M. Voth  
Chairman

Katherine Randall  
Vice Chairman

Don Carnegie  
Commissioner

ATTEST:

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Secretary

APPENDIX A

APPENDIX TO AN ORDER OF THE PUBLIC  
SERVICE COMMISSION IN CASE NO. 8324  
DATED MARCH 1, 1982

The following rates are prescribed for customers served by Southern Madison Water District. All other rates and charges not specifically mentioned herein shall remain the same as those in effect prior to the date of this Order.

Applicable: Southern Madison County

Availability of Service: Domestic and Commercial

Rates:

	<u>Monthly Rate</u>
Zero to 2,000 gallons	\$ 7.25 (Minimum Bill)
Next 1,000 gallons	3.50 per 1,000 gallons
Next 3,000 gallons	3.15 per 1,000 gallons
Next 4,000 gallons	2.75 per 1,000 gallons
Next 15,000 gallons	2.00 per 1,000 gallons
Next 25,000 gallons	1.75 per 1,000 gallons
All Over 50,000 gallons	1.30 per 1,000 gallons